



THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

19 APR 1997

MEMORANDUM FOR DISTRIBUTION

SUBJECT: Defense Contract Management Command (DCMC) Concept of Operations for Implementing Resource and Costing Efficiencies

The attached "Concept of Operations" outlines the framework under which the DCMC operations will be transitioned to an Activity Based Costing methodology and further develops the framework for determining the most appropriate means of resourcing DCMC requirements. This work reflects the combined efforts of several of the Under Secretariats within the Office of the Secretary of Defense and achieves the Program Decision Memorandum II directed goals for reviewing the DCMC business operations with a view toward improving service while reducing incurred cost through application of efficiencies.

I support and concur with the findings of the study group and direct implementation of these efforts according to the schedule provided in the attached "Concept of Operations."

A handwritten signature in black ink, appearing to read "John P. White".

John P. White

Attachment

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Distribution:

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**DCMC Defense Working Capital Fund/Unit Cost Management**  
**Concept of Operation**

The position of DCMC in providing early notice to DOD of procurement problems requires a carefully thought out approach when considering alternate financing techniques. The approach must assure that the unique roles of DCMC in supporting OSD, Congress, and ultimately the taxpayer are secure. The general approach to defining, evaluating, and implementing Unit Cost Management and alternate financing options such as Defense Working Capital Fund (DWCF) or direct reimbursable funding will be as follows:

**Commitment to Unit Cost Management is Essential.** DCMC is committed to moving toward a Unit Cost Management system. The intent is to place heavy emphasis on tracking activity costs associated with producing outputs rather than the traditional governmental approach to appropriation management which tracks and constrains input costs like personnel and travel. Identifying and costing out key outputs is the first step in moving toward any potential alternate financing solution.

**Development of Unit Cost Goals and Cost Management Techniques.** During the remainder of this fiscal year, DCMC will work toward identifying key process outputs and developing techniques to collect and analyze associated costs. By the completion of this phase, DCMC will identify key outputs, highlight and initiate any systems changes necessary to support unit cost management, and develop a plan for implementing this cost management technique during FY98.

**OSD Study Team Facilitates the Process.** A study team composed of DCMC, DLA, OUSD(A&T), OUSD(C), and D,PA&E functional professionals, will oversee the process. The team will be chaired by an analyst from OUSD(A&T) and will periodically review progress and future plans. Working with DCMC, the team will also identify effectiveness evaluation criteria to track progress. Evaluation criteria will include feedback from the Military Services and OSD Staff, effectiveness of DCMC automated systems in supporting transition, analysis of any emerging problem areas relating to the test phase, and any other relevant measures developed by the team.

**Functional Review.** As part of its Unit Cost development, DCMC will analyze current mission functions and provide the OSD Study Team with an analysis of the value

added of each of its products and services by 30 July 1997. The analysis will highlight any low value added functions and make disposition recommendations for these functions. The OSD Study Team will evaluate the results of this functional review and make final recommendations to the Defense Acquisition Board and DWCF Policy Board for final decision.

**FY98 Testing.** During FY98, DCMC will test its Unit Cost Management system with emphasis on successful data collection and allocation of costs to outputs. The test will also focus on identifying true customers, setting performance goals, and developing aggressive but achievable cost reduction targets for each output. DCMC will earn funding authority based on unit cost and workload. No appropriated funds will change hands during the test. The DLA Comptroller will act as the appropriated funds manager.

As part of this test phase, DCMC will also evaluate each of the unit cost pools for possible transition to an alternate financing environment where the appropriated funds would be transferred to the Military Services or other DOD customers. DCMC will use evaluation criteria developed as part of this current OSD review to help identify and prioritize these unit cost areas for transition. In June 1998, DCMC will make recommendations to the OSD Study Team on which unit cost areas are appropriate for transition to alternate financing and provide a formal transition plan. Throughout the test phase, the OSD Study Team will review progress and track performance metrics.

**Customer Identification is Critical.** One of the major problems in transitioning to alternate financing techniques in many DOD activities centers on improper identification of the true customer for the product or service. In some cases, the appropriated funds are held by organizations that do not have a vested interest in the successful completion of the task or service. This is unacceptable for DCMC who fills a critical role in acting as the impartial eyes and ears of the Department and the taxpayer in contractor facilities. Since this is a key concern in any shift toward alternate financing for DCMC, core functions which DCMC performs in its trusted agent capacity must be carefully identified and segregated for special consideration. In later years, as confidence grows in cost collection and allocation, other customers may be identified and funds transferred to their control.

**Transition to Alternate Financing.** During the FY98 testing, DCMC will evaluate all unit cost areas to determine

which are appropriate for alternate financing and develop plans to prudently transition funding for these functions. DCMC will identify and recommend transfer of appropriated funding for particular unit cost areas that have a clearly identifiable customer in the Military Services or on the OSD Staff. If no clear customer can be identified, the appropriated funding for these functions will remain under DLA control. Beginning in FY99, any new missions assigned to DCMC will automatically be resourced through direct reimbursable funding unless special exemption is granted by USD(A&T).

**Commitment to Improved Performance at Reduced Cost.**

The hard work of implementing alternate financing and Unit Cost Management needs to be done by functional managers. Unit Cost Management, DWCF, and direct customer funding represent new approaches to cost accounting for DCMC and should help enable the Command to transition to a more private sector, output oriented approach to cost management. It is not necessary to do everything on day one, but it is necessary to make a commitment and plan the entire journey. Unit cost will become the financial measure of merit in DCMC and will be tracked along with non-financial metrics and performance goals. With Unit Cost Management, the OSD Staff, DLA, DCMC, and the Services will have a common approach to DCMC cost management.

All DOD managers need to be committed to increasing performance and reducing unit costs at the same time and forever. They must plan and commit to future costs in the POM and they must be accountable to deliver. This is not a new concept in DCMC. Since its inception, DCMC has focused on reducing costs and increasing performance levels. Decreases in staffing at a rate of over 7% per year have far outpaced reductions in workload. These additional cost savings have been made possible by new and innovative contract management techniques, management overhead reductions, and a firm commitment to provide the warfighter with the best possible products and services at greatly reduced cost. Transition to Unit Cost Management is simply a new and enabling accounting approach to facilitate the same end.

### **Implementation Schedule.**

- DCMC commits to Unit Cost Management Jan 97
- DCMC develops Unit Cost Management System Jan-Sep 97
- DCMC performs functional review of all products and services to determine value added Jan-Sep 97
- DCMC briefs OSD Study Team on results of functional review and Unit Cost Management System development Jul/Aug 97
- OSD Study Team briefs interim results to DAB and DWCFPB for joint decision to proceed Sep 97
- Testing of Unit Cost Management Oct 97-Sep 98
- Evaluation of Unit Cost areas for potential transition to alternate financing Oct 97-May 98
- Briefing to OSD Study Team on results of transition analysis Jun 98
- OSD Study Team briefs DAB and DWCFPB recommending specific unit cost areas to transition to alternate financing July 98
- If appropriate, DWCF charter developed and presented to DWCF Policy Board for approval July 98
- Begin transition of appropriate unit cost areas to alternate financing Oct 98